

13 April 2015 | Sector Update

## MALAYSIA AIRPORTS PASSENGER TRAFFIC

*Encouraging March 2015 Passenger Traffic Bucks Recent Sluggish Trend*

### HIGHLIGHTS

- MAHB's Malaysian airports passenger traffic growth recorded an uptick +1.2%yoy mainly due to a +4.5%yoy increase in domestic passenger traffic, showing signs that local travel demand is robust.
- Istanbul Sabiha Gokcen International Airport ("SGIA") recorded strong double digit growth of +18.4%yoy, above management's forecast of +15.0%yoy.
- We retain our DCF-derived TP of RM7.53 TP for Malaysia Airports Holdings Berhad ("MAHB"). Our DCF calculation assumes a WACC of 7%.

**First yearly increase in passenger traffic recorded in March 2015.** Passenger traffic recorded for Malaysian airports increased +1.2%yoy boosted by encouraging domestic sector passenger growth at +4.5%yoy mainly due to the school holidays in March 2015, the removal of fuel surcharges and aggressive promotional activity by local carriers. Overall, average airlines' load factor was 70% for March 2015 signalling that carriers are still plagued by overcapacity issues which will likely persist until travel demand catches up to tapering fleet expansions. In contrast, the international sector saw a -2.9%yoy decline in passenger traffic for March 15, this is despite international events such as the Formula 1 race and the Langkawi International Maritime and Aerospace Exhibition 2015 (LIMA 2015). The international sector is still reeling from the unfortunate aviation incidents in FY14, evident with another month of double-digit decline in the China sector. The turmoil in the Middle East offered no reprieve for the international sector as traffic from the sector saw a mid-single-digit decline yoy.

**Highest passenger traffic recorded for the month of March.** It is noteworthy that passenger traffic in March 2015 was the highest monthly passenger volume handled for the month of March, the highest recorded to date in 2015 and the fourth highest since January 2014 which is promising after sluggish February and March 2015 passenger growth which saw yoy declines of -4.6% and -1.0% respectively.

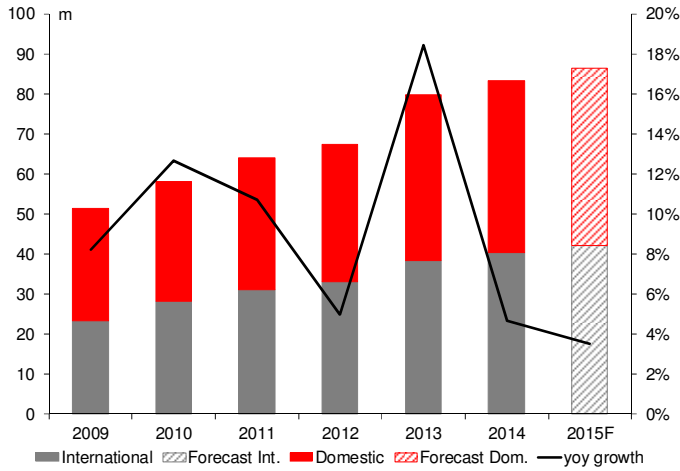
**Istanbul SGIA boosted by domestic sector to record high double digit growth.** Including SGIA, MAHB's total passenger traffic growth grew +4.4%yoy for the month of March 2015. SGIA recorded a high double digit growth at +18.4%yoy in line with overall aircraft traffic increase of +18.5%. The growth was boosted by a +21.5%yoy increase in domestic traffic coupled with commendable international traffic of +13.3%yoy. Both the growth for March 2015 (+18.4%) as well as the cumulative 1Q2015 growth (+17.4%) are ahead of management's 2015 growth forecast for SGIA of +15.0%yoy. Moving forward, we expect SGIA to be the main growth driver for MAHB's passenger traffic volume.

**Rebound in February after a blip in January.** According to IATA, February 2015's passenger growth was +6.2%yoy, above the 10-year average growth rate of +5.6% with the Lunar New Year occurring during the month leading to a boost in passenger traffic in the Asia Pacific Region. While the March 2015 growth is slightly below IATA's +7% growth forecast for 2015, it is in line with ICAO's +6.3% projection. The growth was contributed mainly by the Asia Pacific Region which recorded a +9.1%yoy increase in February 2015 while developing regions such as the Middle East and Latin American continued its strong international passenger growth trajectory with +8.7%yoy and +7.4%yoy yoy respectively. Average load factor for February 15 was 78.5% with capacity growth of +5.6%yoy.

**We are NEUTRAL on MAHB with a DCF-derived TP of RM7.53.** Our DCF valuation assumes a WACC of 7%. Despite a sluggish start in passenger traffic in 2015, the uptick in March 2015 was encouraging. We see potential catalyst for MAHB in FY15 coming from: i) increasing passenger movements in the coming months; ii) breakeven of loss-making Sabiha Gokcen International Airport; iii) better than expected contributions from non-aeronautical division.

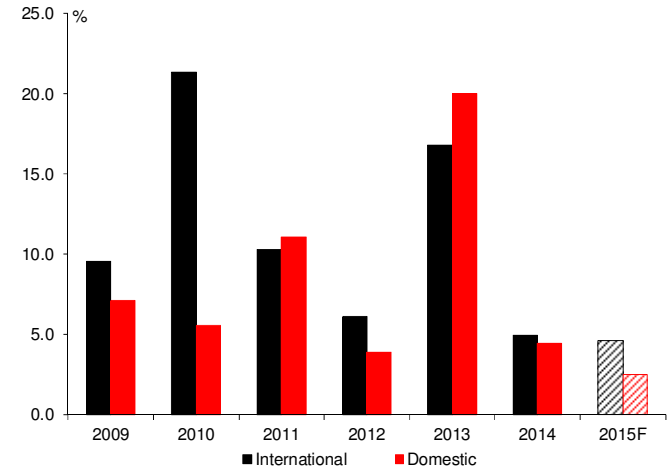


## PASSENGER TRAFFIC AT MALAYSIAN AIRPORTS



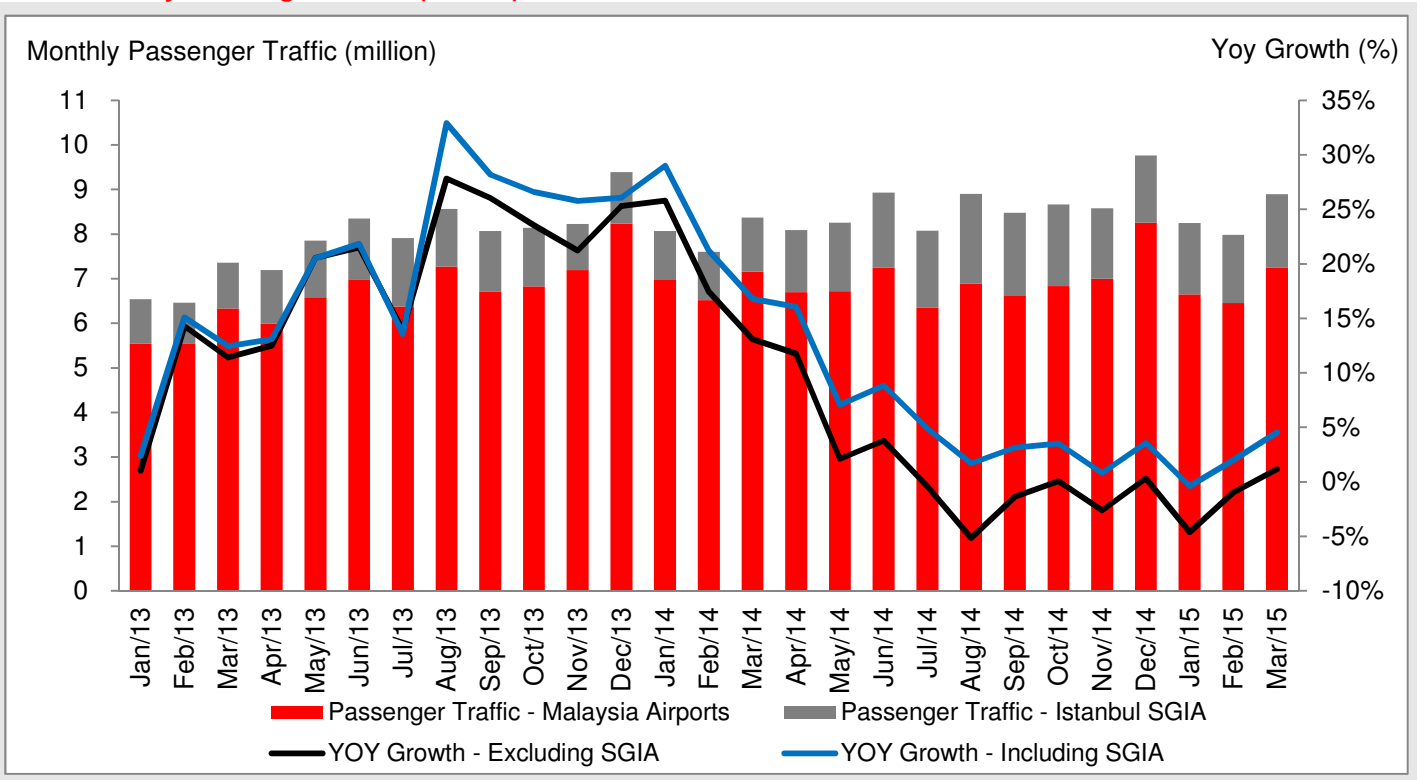
Source: MAHB, MIDFR

## CHANGE IN TRAFFIC AT MALAYSIAN AIRPORTS



Source: MAHB, MIDFR

## Total Monthly Passenger Traffic (million)



Source: MAHB, MIDFR

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).  
 (Bank Pelaburan)  
 (A Participating Organisation of Bursa Malaysia Securities Berhad)

## DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.

### MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

#### STOCK RECOMMENDATIONS

BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	<i>Negative</i> total return is expected to be -15% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

#### SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.